

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

032

IMPROVEMENTS NEEDED IN THE
STATE DEPARTMENT OF EDUCATION'S
APPORTIONMENT OF STATE SCHOOL FUNDS

MARCH 1982



California Legislature

Joint Legislative Audit Committee

STAFF

WALTER J. QUINN
CHIEF CONSULTANT
ROBERT W. LUCAS
PRINCIPAL CONSULTANT
CHARLES T. SCHULTZ
SENIOR CONSULTANT
GWEN YOUNKER
COMMITTEE SECRETARY

925 L STREET, SUITE 750
SACRAMENTO, CALIFORNIA 95814
(916) 445-0371

WALTER M. INGALLS
CHAIRMAN

SENATE MEMBERS
ALFRED E. ALQUIST
RUBEN S. AYALA
ROBERT G. BEVERLY
PAUL CARPENTER
JOHN DOOLITTLE
KEN MADDY
ROBERT PRESLEY

ASSEMBLY MEMBERS
LEROY F. GREENE
CHARLES IMBRECHT
ERNEST KONNYU
RICHARD ROBINSON
MARILYN RYAN
JOHN VASCONCELLOS

March 16, 1982

032

The Honorable President pro Tempore of the Senate
The Honorable Speaker of the Assembly
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's report concerning the State Department of Education's apportionment of state school funds.

Respectfully submitted,

WALTER M. INGALLS
Chairman, Joint Legislative
Audit Committee

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	i
INTRODUCTION	1
AUDIT RESULTS	
THE STATE DEPARTMENT OF EDUCATION NEEDS TO IMPROVE CONTROLS OVER THE APPORTIONMENT OF \$5 BILLION IN STATE SCHOOL FUNDS	6
CONCLUSION	13
RECOMMENDATION	14
RESPONSE TO THE AUDITOR GENERAL'S REPORT	
State Department of Education	17
AUDITOR GENERAL'S COMMENTS ON THE DEPARTMENT OF EDUCATION'S RESPONSE	32

SUMMARY

The State Department of Education administers the State School Fund apportionment process. In fiscal year 1981-82, this process will determine the apportionment of approximately \$5 billion in state funds for basic education programs provided to California's kindergarten through grade twelve public school students, including adults attending high school. We did not examine apportionments made for categorical aid programs.

Our review disclosed areas where control procedures should be instituted to provide greater assurance that apportionments to school districts are accurate. For example, the department's legal counsel does not routinely examine the legal interpretations made by departmental administrators in developing forms used in calculating apportionments. Because this review procedure has not been established, the potential exists for departmental administrators to misinterpret legal requirements in developing apportionment forms. Such misinterpretations could result in school districts' receiving inaccurate apportionments.

Similarly a control weakness exists because the department's internal audit staff has not participated in reviewing the department's procedures for making apportionments. Such a review, if implemented, could provide greater assurance that sufficient controls exist and that apportionments are accurate. As an indication of the need for improved internal controls, we noted that some staff duties were not adequately separated, apportionment calculations were not sufficiently documented, and not all data used for these calculations were validated.

Finally, we found that data management services staff have not actively participated in making apportionments. Because these staff members have not been involved, there is no assurance that computer programs and procedures have been documented. Without adequately documented programs, analysts unfamiliar with the programs cannot generate apportionments and auditors cannot thoroughly review the internal controls or accuracy of the process.

As a result of these control weaknesses, some school districts have received inaccurate apportionments. In one case, the department overstated the first principal apportionment for fiscal year 1980-81 by \$10 million because of a computational error. Although the department found the error

and subsequently corrected it in the second principal apportionment, the department has not made procedural changes to prevent similar errors from occurring in the future.

To address the weaknesses we found, the department needs to improve controls to provide greater assurance that apportionments are accurate. Specifically, the department should involve all key functional units within the department in the apportionment process and properly segregate the job functions of the staff responsible for determining the apportionments. Additionally, the department should thoroughly document its computer procedures and develop and apply formal standards for validating computer programs.

INTRODUCTION

In response to a request by the Joint Legislative Audit Committee, we have reviewed the State Department of Education's management and administration of the State School Fund apportionment process. This review was conducted under the authority vested in the Auditor General by Sections 10527 through 10528 of the Government Code.

Background

The State Department of Education determines the amount of state funds that each of the State's 1,044 school districts is entitled to receive from the State School Fund. These apportionments fund basic education programs delivered to the 4 million elementary and high school students, including high school adults, enrolled in California's public schools. The department also provides apportionments for certain categorical aid programs.

In fiscal year 1981-82, the statewide cost of basic education programs will total approximately \$7.9 billion. The State will provide approximately \$5 billion of this funding, while local property taxes will finance the remaining \$2.9 billion.

The amount of basic education apportionments each school district receives from the State School Fund is determined by applying a funding formula provided in the Education Code. Simply stated, the formula determines the amount of revenue a district is authorized to expend for each student in attendance for basic education programs; this is referred to as the revenue limit per unit of average daily attendance.* This amount is then multiplied by the district's average daily attendance to determine the district's total revenue limit. To this figure certain adjustments for special programs are added or subtracted to arrive at the total funding level for a district. Finally, the district's local property tax revenues are subtracted from the total, and the resulting figure is the amount of state aid a district is entitled to receive.

There are normally three apportionments each year; these are certified by the Superintendent of Public Instruction and submitted to the State Controller for payment. In addition, after the close of each fiscal year, the department performs a calculation using annual data to determine whether the apportionments for the subsequent year should be adjusted because of errors in estimation or other inaccuracies.

* Average daily attendance is the total pupil attendance days within a district divided by the total number of school days taught.

To begin the apportionment process, the State Department of Education develops apportionment forms based on existing statutory funding requirements. The department distributes the apportionment forms for school districts to the respective county superintendents of schools. Each superintendent's office, in cooperation with school districts within the county, then completes the apportionment forms. Once a county superintendent's office completes the apportionment forms for its school districts, the county superintendent submits the forms to the State Department of Education.

After the forms are completed and returned, the department reviews them for reasonableness and verifies selected calculations. The data on the forms are then entered into computer files, and then a computer program is developed to recompute the districts' calculations. Once the department calculates the apportionment, it is presented to the Superintendent of Public Instruction for certification. The certified apportionment is then presented to the State Controller for payment. The State Controller relies on the Superintendent's certification as an assurance that the apportionment is accurate and uses the certified document as a basis for his payments to school districts.

In addition to the agencies and officials mentioned above, county auditors and public accountants have some involvement in the apportionment process. Under Section 41760.2 of the Education Code, each county auditor is required to furnish the Superintendent of Public Instruction with information on the amount of tax receipts, or estimated tax receipts, for each school district situated within the county. The State Department of Education uses the information on school district tax receipts provided by county auditors in determining district apportionments.

Pursuant to Education Code Section 41020, each school district in the State is audited annually by certified public accountants or public accountants. Part of these audits includes a review of selected information that was submitted on the apportionment forms. The results of the annual audits of school districts are required to be submitted to the State Department of Education.

Scope of Review

We reviewed the State Department of Education's procedures for determining State School Fund apportionments for basic education programs. This review included analyzing apportionments made for basic education programs provided to

elementary and secondary students and high school adults. We did not review apportionments made for categorical aid programs.

The aim of our study was to determine the department's process for apportioning funds to school districts and to identify methods for improving the accuracy of the apportionments. Notwithstanding the activities of the other participants in the apportionment process, we concentrated our review on the department's process for assuring the accuracy of apportionments. To identify areas where the process is weak, we examined the department's internal control procedures. As a means of comparison, we used industry-accepted minimum standards of control to identify insufficient or missing controls within the department's current process.* We then tested the computer computations to verify whether the programs were accurate, validated the accuracy of selected data entering the process for 27 sample school districts, and compared the computations to formulas specified by statutory requirements. We evaluated the problems identified during the audit against internal control standards to determine the causes of the problems. We then made appropriate recommendations.

* These industry standards include the Statement of Auditing Standards and Audits of Service Center-Produced Records, American Institute of Certified Public Accountants; Computer Control Guidelines, Canadian Institute of Chartered Accountants; and the State Administrative Manual, Sections 4819.2 through 4847 and 8080 through 8080.2.

AUDIT RESULTS

THE STATE DEPARTMENT OF EDUCATION NEEDS TO IMPROVE CONTROLS OVER THE APPORTIONMENT OF \$5 BILLION IN STATE SCHOOL FUNDS

The State Department of Education needs to improve its controls over apportioning approximately \$5 billion in state school funds for basic education programs to school districts. We found that the department has not involved key functional units in making apportionments. The involvement of these units would provide greater control and, consequently, greater assurance of the accuracy of the apportionments. Specifically, we found that the department's legal staff does not routinely review the interpretations of statutory requirements used in making apportionments to school districts. Neither has the internal audit staff periodically examined the department's procedures and methods for apportioning the funds. Finally, the data management services staff has not ensured that computer applications meet with accepted documentation and operating control standards.

Because the department has not involved these units in making apportionments, we found an absence of standard control procedures that, if implemented, could increase the accuracy of the apportionments. We found that some school

districts have received inaccurate apportionments. Had adequate controls been in place, errors may not have occurred. Although the errors we observed over the course of our review either have been corrected or are being addressed, departmental management has not made procedural changes to prevent similar errors from occurring in the future.

The Department Needs to Include
a Legal Review Step in the Process

The department's legal counsel does not routinely review the interpretations of the law made by departmental administrators in developing forms for making apportionments to school districts. In the absence of a formal review of the apportionment forms by the department's legal staff, the potential exists for departmental administrators to misinterpret legal requirements in developing the apportionment forms. Such misinterpretations could result in districts' receiving inaccurate apportionments. A legal review of the apportionment forms would provide greater assurance that apportionments are made in accordance with the law.

As legislative changes to statutory requirements affecting the apportionment process are enacted, one analyst interprets the changes. However, these interpretations are

not routinely reviewed by the legal staff. In fact, the department's legal staff is seldom asked to define unclear portions of statutory requirements.

A legal review of the apportionment forms would provide greater assurance that these forms are consistent with the law. Over the last three years, there have been at least 30 significant school finance measures enacted by the Legislature. In this period, the department's legal staff has not conducted a thorough legal review of the forms that the department has developed for making apportionments. In addition, the department has not established an on-going legal review process to assure that changes in the law are accurately reflected in the apportionment forms.

In view of the frequent changes in school finance legislation, a legal review of the apportionment forms would provide greater assurance that apportionments are made in accordance with the law.

The Department Needs to
Review the Controls and
Accuracy of the Process

The department's internal audit staff has not participated in reviewing either the department's procedures and methods for making apportionments or the internal controls

and accuracy of those procedures. Using accepted industry standards of internal control as a basis for comparison, we examined the department's procedures for internal control.* We found that many controls designed to assure that apportionments are accurate are not in place. Specifically, job duties of staff were not adequately separated. And because the procedures were not documented, we were unable to trace certain transactions through the apportionment process. Finally, we found that the data used in the apportionment calculations were not thoroughly validated.

The department should involve its internal audit staff in routinely reviewing changes and additions to procedures and methods for making apportionments. In this way, the department can ensure that adequate internal controls and audit trails are present. Additionally, the department should direct the internal audit staff to conduct a review of the procedures and methods for making apportionments both to determine whether sufficient controls exist and to test the accuracy of the process.

* Internal control procedures are designed to provide reasonable assurance that financial records are reliable. Internal control is accomplished by installing procedures and organizing staff so that errors can be prevented or systematically identified and corrected.

Our review disclosed that job duties have not been adequately separated. For example, the analyst who defines the computer applications is also responsible for testing the programs. According to accepted industry control standards, these two functions should be separate to provide greater assurance that the computer program is thoroughly tested before it operates. In one instance, the programmer responsible for developing the computerized program used in making the apportionment made an error in the apportionment program. The department did not find the error until after the Superintendent of Public Instruction had certified the apportionment to the State Controller and the apportionment had been made. This error resulted in the department's overstating the fiscal year 1980-81 first principal apportionment in February 1981 by \$10 million.

Although the department subsequently found the error, we determined that the department has not developed a formal review process for independently identifying and correcting such errors before apportionments are made. Furthermore, had an independent analyst been responsible for testing the computer program, this error might have been prevented. The department corrected the overstatement when it made the second principal apportionment in June 1981.

Further, in some cases, we were unable to ascertain whether certain school district claims were valid because of the lack of documentation. An example of this problem involved districts' claims for declining enrollment funding. The school districts sampled did not maintain certain types of data necessary for the funding formula calculation, and, as a result, we could not determine whether the school districts claiming the adjustment actually qualified for funding or if they received the appropriate amounts. In fiscal year 1980-81, the statewide claims for funding declining enrollments were in excess of \$176 million; we were unable to verify the overall accuracy of these claims. Department officials told us that they recognize the difficulty in verifying the claims and are accepting whatever amounts school districts are claiming.

Had the internal audit staff been involved in reviewing the development and maintenance of procedures for making apportionments as well as the accuracy of the apportionments, they could have identified weaknesses in controls and the lack of documentation and data validation procedures.

The Department Needs to
Document Its Computer
Programs and Procedures

The department's data management services staff do not participate actively in the procedures for making apportionments. As a result, computer programs and procedures have not been documented. Without such documentation, analysts unfamiliar with the programs cannot generate apportionments and internal auditors cannot thoroughly review the system's accounting controls.

Because the department has assigned the programmer/analyst directly to the unit receiving computer services, data management services staff are not actively involved in the process. Yet the data management services staff should be involved in the procedures for determining apportionments to provide greater assurance that standards for programming and documenting the system are followed. Documentation not only provides a reference for programmers and analysts responsible for maintaining the system, it also enables internal and external auditors to review accounting and internal controls.

Because the data management services staff do not participate in the procedures for making apportionments, there is no assurance that computer programs and procedures are

adequately documented. For example, we found that there is no documentation defining the programs, files, and operating procedures, and that program listings and a history of changes are not maintained.

Because the computer process is not documented, the department must rely exclusively on the key analysts to generate apportionment figures. Moreover, should one of these analysts leave the department, there is no assurance that the apportionments could be made. Additionally, this lack of documentation prevented us from thoroughly auditing the department's procedures for making apportionments; there are no means of determining the procedures or methods used at a given time for processing apportionment amounts.

CONCLUSION

The State Department of Education has not included adequate controls within its procedures for processing State School Fund apportionments for basic education programs. That is, the department has not involved all appropriate functional units in determining apportionments, nor has it properly organized job functions to provide greater assurance that the process is accurate and reliable. As a result, some school districts have received

inaccurate apportionments from the State School Fund. And although errors have been corrected as they are identified, there have been no procedural changes to prevent additional errors from occurring.

RECOMMENDATION

We recommend that the State Department of Education ensure that its legal staff, internal audit staff, and data management services staff actively participate in the apportionment process to provide greater assurance that it is effective and reliable. Specifically, the department should take the following actions:

- Direct the legal staff to review all legal interpretations and apportionment forms to ensure that the apportionment process is consistent with statutory requirements;
- Direct the internal audit staff to review periodically the apportionment process for internal controls and accuracy; and

- Direct the data management services staff to develop and install computer system documentation and programming standards and to apply them to the apportionment process.

We further recommend that the department properly separate the duties of the two key analysts now responsible for calculating apportionments.

Also, the department should require the data management services unit to develop and install formal standards for system design, programming, and documentation. Departmental management should see that the unit adheres to these standards.

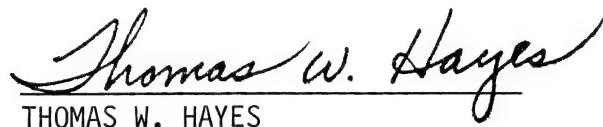
We recommend that the department detail in writing all current computer applications and manual procedures within the apportionment process. In its documentation, the department should consider including the following elements:

- Statement of purpose and capabilities of system;
- System flowcharts;
- Programming documentation;

- Program listings, narratives, and flowcharts;
- File formats;
- Operating procedures;
- Control procedures;
- Procedures for preparing, submitting, and controlling input;
- Procedures for handling corrections, re-entry, and control; and
- Procedures for controlling receipt of input, review of output, reconciliations, data and systems testing.

Finally, we recommend that the department develop additional computer and manual editing procedures to validate data used in the calculations. At the end of the year, the annual revenue limit calculation data could be matched to the districts' data used for the Annual Financial Report. In this way, staff could discover errors in apportionment estimates that need adjustment in the subsequent year.

Respectively submitted,


THOMAS W. HAYES
Auditor General

Date: March 12, 1982

Staff: Harold L. Turner, Audit Manager
Robert T. O'Neill
Karen A. Nelson
Stephen Lozano
Janet McDaniel
Albert Tamayo



STATE OF CALIFORNIA
DEPARTMENT OF EDUCATION
STATE EDUCATION BUILDING, 721 CAPITOL MALL, SACRAMENTO 95814

March 4, 1982

Mr. Thomas Hayes
Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

I must express my disagreement with the conclusions of the draft report "Improvements Needed in the State Department of Education's Apportionment of State School Funds." Not only does the report fail to document specific mistakes or errors which would be cause for suggesting that improvements are needed, but in addition, your auditors neglected to acknowledge certain readily available information. Considering the fact that your auditors spent more than one year in detailed examination of Department of Education records for this report, that specific documentation and information certainly should have been included. Clearly, it was not.

I bring your attention to the following discrepancies:

- Your report fails to appropriately recognize the importance of the system of "checks and balances" which currently exists. County superintendents and auditors and local certified public accountants review, verify and audit local apportionment calculations. Your brief acknowledgment of their existence is hardly sufficient. I vigorously support this state-county-local partnership. Your auditors, however, appear to favor an even larger state bureaucracy to audit school districts--a thrust which permeates the entire report, and which I believe violates the spirit and intent of locally based school administration under California law. If local control of schools is indeed to be a reality--as I most strongly believe it should--then responsibility for miscalculations, as well as for positive accomplishments, must ultimately be a shared responsibility among the various governmental entities involved. I cannot adopt your apparent notion that more state control is necessarily better control.
- Your report cites only one instance of apportionment miscalculation in a four-year period--a computer error which was first identified by our staff and our verification procedures, and corrected immediately. With more than \$31 billion certified for apportionment in the

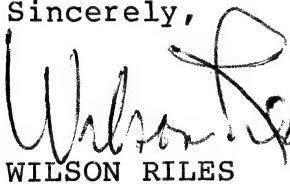
four-year period beginning in 1978-79, one computer miscalculation of \$10 million represents a small percentage--particularly in light of the fact that it was identified and corrected immediately by our staff.

- o You fail to give adequate recognition to the fact that local estimates of revenue are just that--estimates. Our state laws require adjustments and corrections because the estimated data differ from the actual data submitted at year's end. Our records clearly show that corrections over the years represent a bare 1/10 of 1 percent -- certainly a laudable record -- for everyone... state, county and local entities.

With more than 1,000 school business officials each computing revenue limits at the local level--and Department of Education staff following those computations with detailed verification procedures--I submit that the state school fund apportionment process is one of the most extensive systems of checks and balances imaginable. The fact that your auditors found only one miscalculation in a four-year period -- a computer error -- certainly documents the accuracy and reliability of the state-county-local partnership as well as the Department's certification process.

As you and I have personally discussed, I am most willing to cooperate with your auditors, and I certainly do not take the position that any organization is flawless. I find no fault with constructive criticism--indeed, I welcome it--but I am compelled to register my objections to the report and to your main suggestion that additional state controls will improve the state apportionment process.

Sincerely,



Wilson Riles

STATE DEPARTMENT OF EDUCATION
Response to
"Improvements Needed in the State Department of
Education's Apportionment of State School Funds"

Auditor General Recommendation

The State Department of Education needs to improve controls over the apportionment of \$5 billion in state school funds.

State Department of Education Response

First, the \$5 billion figure represents only part of the principal apportionment of state aid; the 1981-82 principal apportionment of state aid will be approximately \$6.1 billion.

More importantly, this statement reveals at the outset the Report's failure to articulate the existing apportionment process. If during their review, Auditor General staff had asked for an explanation of the apportionment process from the manager in charge of apportionments or either of his assistants, they would surely have gained a more accurate and complete description of the process, including the existing "checks and balances" and the impact of a frequently changing body of school finance law. For example, the staff referred to above, would have identified the statutory requirements that county superintendents of schools not only calculate and process district apportionments to the State but also, with county auditors and local certified public accountants, participate in annual audits of districts' state school fund apportionments. The lack of recognition of the important role of the county superintendent, county auditors and local CPA's in the apportionment verification process, brings into serious question the accuracy of the Report and your recommendation that additional controls are needed.

With reference to the Report's failure to recognize the impact of a frequently changing body of school finance law, see the attached document which details the timing and general content of school finance legislation enacted since the passage of Proposition 13, three and one-half years ago. As the document indicates, seven pieces of significant school finance legislation were enacted for 1978-79, seven pieces for 1979-80, eight for 1980-81 and eight for 1981-82. An examination of this legislation and the timing of its passage relative to the beginning of each school year serves to underscore the swiftness and precision with which the Department must provide revenue limit worksheets to school districts and county offices of education and then, using the completed worksheets as calculated by the county superintendents, conduct the multi-billion dollar principal apportionment process. Such scanty recognition of the significance of constantly changing school finance law is a severe shortcoming of the Report.

In summary, the attached document shows the Department certified state and local funds through the principal apportionment process between 1978-79 and the advance apportionment of 1981-82 totaling more than \$31 billion (\$31,473,137,388), with State funds in excess of \$23 billion (\$23,096,804,959). Department staff have reviewed every adjustment, correction, and recertification since 1978-79. These changes occasionally occur because of statutory ambiguity, but most often because state law requires that districts and county offices initially submit estimated data and at year-end submit actual data. The document clearly shows that these corrections over the years have totaled approximately 1/10 of 1 percent or a total of \$27,559,704.

Auditor General Recommendation

The Department needs to include a legal review step in the process.

State Department of Education Response

The passage of school finance legislation generates a meeting among our staff, representatives of school districts and county offices, and staff members of the Legislature, which your staff attended in a few cases, to carefully review legislative intent and how the Department will administer each section of a new statute. The Department's Legal Office is an active participant in the preparation of Title 5 Regulations and the public hearings which are conducted on the revenue limit worksheets. Legislative "cleanup" of school finance law is often necessary because of the complexity of school finance law and the fact that the legislative process can not always anticipate all ramifications of any specific statutory change. These "cleanup" changes are not a result of a lack of involvement of our Legal Office, but rather a reflection of the complexity and detail of school finance law.

Auditor General Recommendation

The Department needs to review the controls and accuracy of the process.

State Department of Education Response

The recommendation regarding the use of our internal audit staff to review apportionment procedures fails to recognize the existing role of the county offices of education, county auditors and local CPA's, as mentioned above. The report's recommendation, based on "accepted industry standards of internal control," neglects to note either the importance of the verification and audit role of the counties, or the internal computational "checks" performed on the apportionment file by the Department. With over 1000 school business officials each initially computing their revenue limits, the state school fund apportionment process is one of the most extensive systems of checks imaginable.

Most importantly, your report cites only one instance of an apportionment miscalculation, a computer error which was discovered by Department staff, corrected immediately, and in fact, pointed out to Auditor General staff in the course of their review. It seems self-evident that one computer error of \$10 million, out of a total of over \$31 billion dollars certified for apportionment since 1978-79, is an enviable record.

In addition, the Report alleges that there is no verification of districts' apportionments for the declining enrollment adjustment. As noted previously, county offices of education and county auditors perform the apportionment verification function. Additionally, it is important to note that pursuant to Education Code Section 41020, the Department of Finance annually audits the average daily attendance (ADA) of a sample of districts and reports the audit results to the Department. The Department, in turn, makes adjustments reflecting these ADA audit findings to districts' subsequent year apportionments.

Because the declining enrollment adjustment is based on districts' ADA, these audit adjustments will often result in a recalculation of districts' declining enrollment apportionments. Thus, as a result of the work of the county offices of education, the county auditors, and the Department of Finance, a declining enrollment verification process is currently in place.

Auditor General Recommendation

The Department needs to document its computer programs and procedures.

State Department of Education Response

Additional computer system documentation is always desirable. Because of the State's current fiscal situation, sufficient fiscal and personnel resources are not available to further expand our documentation. We will make every possible effort to adequately document and record all data processing procedures. The Report's conclusion that the State Department of Education's data management services staff do not participate in the procedures for making apportionments is simply not true. One member of the data management services staff is assigned full-time to do the computer programming and systems design necessary to operate the apportionment process.

Summary of Principal Apportionment Amounts
Since AB.65/77

	Total Funds	State Funds	Corrections
1978-79	\$ 6,971,862,905	\$ 4,710,159,766	Total - \$15,511,149 - 122,887 1978-79 - 15,388,262 for prior to AB 65
1979-80	7,621,466,317	5,819,986,887	- 4,972,471 1978-79 - 1,460,809 prior to AB 65 Total - \$ 6,433,280
1980-81	8,439,904,083	6,427,099,938	Total 5,615,275 4,346,646 1978-79 1,268,275 1979-80
1981-82	<u>8,439,904,083</u> <u>(prior year data)</u>	<u>6,139,558,368</u>	<u>-</u>
Total 1978-79 thru 1980-81	\$31,473,137,388	\$23,096,804,959	- \$14,868,345 net change .064% Correction State funds Total \$27,559,704 .119% State funds
	26.614% Local	73.386% State	

LAB
CRM:cr
12-16-81

SCHOOL FINANCIAL REGULATION CONCERNING THE PRINCIPAL APPOINTMENT BY THE STATE BOARD OF EDUCATION.

Fiscal Year	Bill/Purpose	Date Signed by Governor	Date Bill Effective	Impact
1978-79	AB 65, Chapter 894, Statutes of 1977 Comprehensive School Finance Bill	September 17, 1977	July 1, 1977 and thereafter	Total overhaul of School Finance System. The portions related to 1977-78 were implemented, those related to 1978-79 were not.
1978-79	Proposition 13	Approved in Votes June 6, 1978	June 6, 1978	Made inoperative provision of AB 65 and drastically overhauled the school finance system.
1978-79	SB 154, Chapter 292, Statutes of 1978 Comprehensive School Finance Bill	June 24, 1978	July 1, 1978	Revised entire funding mechanism for school districts and county offices of Education
1978-79	SB 2212, Chapter 332, Statutes of 1978 Trailer Bill	June 30, 1978	July 1, 1978	Clarified and made technical changes to funding mechanism of SB 154
1978-79	AB 2190, Chapter 359, Statutes of 1978 Budget Act	July 6, 1978	July 1, 1978	Contains control language and special provisions
1978-79	AB 2043, Chapter 893, Statutes of 1978 General Bill	September 19, 1978	July 1, 1978	Omnibus bill to liberalize controls
1978-79	SB 1431, Chapter 890, Statutes of 1978 Special Provision	September 7, 1978	July 1, 1978	Non-Citizen-Non-Immigrant Pupils
1978-79	AB 2955, Chapter 1109, Statutes of 1978 Timber Tax	September 25, 1978	July 1, 1978	Timber Tax - Trailer Bill to AB 1258, Chapter 176/76

Total Funds	State Funds	Amount of Corrections	Remarks
- - -	- - -	- - -	No corrections made to Advance Apportionment
1978-79 Advance Apportionment - Total N.A.	\$ 4,658,442,825	\$ 4,655,258,014 (4,218,224,495) (86,477,568) (125,665,822) (217,099,887) (-16,690,150) (21,869,292) (12,611,100)	Recertification of the Advance using current data
1978-79 First Principal (P1) Total \$6,950,342,022 K-12 (6,294,826,091) CSSF (295,000,000)* STRS (125,625,822) Spec Educ (217,099,867) Prior Year (-16,690,150) Corrections CSSF - DS/OP (21,869,292) NFM (12,611,100)	\$ 4,665,258,014 (4,218,224,495) (86,477,568) (125,665,822) (217,099,887) (-16,690,150) (21,869,292) (12,611,100)	1978-79 (P1) is 32.877% Local and 67.123% State. Change between Advance was .1463% (\$6,815,189)	1978-79 (P1) Recertification is 32.839% Local and 67.161% State
1978-79 Recertification First Principal - No Change		\$4,667,903,872 plus 2,645,858 to K-12 Revenue Limit	San Ysidro Penalty restoration
1978-79 Second Principal (P2) Total \$6,971,862,905 K-12 (6,297,261,207) CSSF Revenue (300,835,522) Limits Spec Educ (229,227,183) STRS (127,227,590) Prior Year (-15,511,149) Corrections CSSF - DS/OP (21,869,292) NFM (10,953,260)	\$4,710,159,766 (4,221,085,022) (115,277,568) (229,227,183) (127,258,590) (-15,511,149) (21,869,292) (10,953,260)	Recertification of the First Principal using current data Corrections for 1978-79 \$-122,887	1978-79 (P2) is 32.44% Local and 67.56% State Change between (P1) Recertification and (P2) was .8971% (\$42,255,894) 1978-79 corrections .00176% of 1978-79 total

*Exact figure not summarized

VISICAL YEAR	BILL/PURPOSE	DATE SIGNED BY GOVERNOR	DATE BILL EFFECTIVE	IMPACT
1979-80	SB 190, Chapter 259, Statutes of 1979 Budget Act	July 13, 1979	July 1, 1979	Control language and preliminary budget data.
1979-80	AB 8, Chapter 282, Statutes of 1979 Comprehensive School Finance Bill	July 24, 1979	July 1, 1979	Brought into law a wide variety of changes. Supersedes budget act. Too late for advance apportionment.
1979-80	AB 66, Chapter 1150, Statutes of 1979 Business Inventory	September 28, 1979	September 28, 1979	Changes tax structure.
1979-80	AB 877, Chapter 1160, Statutes of 1979 Mobile Homes Taxes	September 29, 1979	January 1, 1980	Changes mobile home taxes.
1979-80	SB 186, Chapter 1035, Statutes of 1979 Trailer Bill to AB 8	September 26, 1979	July 1, 1979	Comprehensive update to AB 8.
1979-80	SB 1426, Chapter 288, Statutes of 1980 K-12 Deficit	June 30, 1980	July 1, 1980	Deficit restoration.
1979-80	SB 1789, Chapter 1369, Statutes of 1980 Annual ADA	Unsigned - Filed December 1, 1980	July 1, 1979	Special Circumstances - Use annual ADA in lieu of P-2 ADA.

TOTAL FUNDS	STATE FUNDS	AMOUNT OF CORRECTIONS	REMARKS
1979-80 Advance Apportionment Total \$6,271,862,905*	\$4,737,395,697	No corrections made in advance apportionment.	
1979-80 First Principal (P1) Total \$7,621,924,916	\$5,683,447,339	Corrections for 1978-79 were -\$2,360,867.	1979-80 (P1) is 25.43% local and 74.57% state. Increase from advance to (P1) is \$946,378,642. AB 8 was passed too late to reflect in the advance apportionment.
K-12 Revenue Limit (7,019,515,720)	(5,271,746,067)	Corrections for 1978-79, compared to the total 1978-79 (P1) Revenue Limit, amounted to .031%.	
CSSF Revenue Limit (345,720,881)	(155,012,957)	The remainder of the corrections were for years prior to 1978-79 (\$5,592,085).	
Special Education	(231,274,057)		
Prior Year Corrections	(-7,952,956)		
CSSF DS/OP ...	(21,191,564)		
NGM	(12,175,650)		
1979-80 Second Principal (P2) Total \$7,621,466,317	\$5,694,345,599	Corrections for 1978-79 (P2) were -\$4,972,471 (This is not in addition to the -\$2,360,867, they are included.)	1979-80 (P2) is 25.29% local and 74.71% state. Increase from (P1) to (P2) is \$10,898,260, or .1917% of total.
K-12 Revenue Limit (7,011,342,748)	(5,276,983,003)		
CSSF Revenue Limit	(347,681,039)		
Special Education	(233,976,696)		
Prior Year Corrections	(-6,433,280)		
CSSF DS/OP ...	(21,191,564)		
NGM	(13,707,550)		
1979-80 Second Principal Recertification Same as (P2)	K-12 Revenue Limit increase \$125,641,288	Restore deficit in K-12 Revenue Limit.	
*1978-79 (P2) amount.			

Fiscal Year	Bill/Purpose	Date Signed by Governor	Date Bill Effective	Impact
1980-81	AB 2020, Chapter 510, Statutes of 1980 Budget Act	July 16, 1980	July 1, 1980	Set up Apportionment amounts for 1980-81
1980-81	SB 2196, Chapter 1354, Statutes of 1980 Comprehensive School Finance Bill	September 30, 1980	July 1, 1980	Revises provisions of the Budget Act
1980-81	SB 1870, Chapter 797, Statutes of 1980 Special Education Master Plan	July 28, 1980	July 1, 1980	Sets up all new Special Education provisions
1980-81	AB 3075, Chapter 1353, Statutes of 1980 Special Education Master Plan	September 30, 1980	July 1, 1980	Revise Special Education procedures
1980-81	SB 1562, Chapter 750, Statutes of 1980 Bill - Trailer Bill to SB 1870 1979-80 Deficit Bail Out	July 27, 1980	July 1, 1980	Fund approved on a per hour basis
1980-81	SB 3269, Chapter 1329, Statutes of 1980 Attendance Pilot Bill	September 23, 1980	January 1, 1981	Revenue Limit adjustment for Specie attendance
1980-81	AB 1994, Chapter 610, Statutes of 1980 Business Inventory	July 17, 1980	July 1, 1980	Changes taxing system
1980-81	SB 1670, Chapter 1334, Statutes of 1980 Summer School	September 30, 1980	January 1, 1980	Revises method of developing summer school -Adm changes

Total Funds	State Funds	Amount of Corrections	Remarks
1980-81 Advance Apportionment Total \$7,621,466,317*	\$5,987,964,195	No corrections made to the Advance Apportionment	
1980-81 Advance Apportionment Recertification Total \$7,621,466,317	\$6,286,890,490	Recertified to reflect Special Education Master plan changes	1980-81 P1 is 24.254% Local and 75.746% State. Change between Advance Recertification and First Principal was .051% (\$3,176,424)
1980-81 First Principal (P1) Total \$8,304,176,196 K-12 RL (7,506,291,779) CSSF RL (180,015,410) Spec Educ (574,999,984) Prior Year (3,611,072) Corrections (23,206,900) CSSF DS/OP (15,469,194) GATE (581,857) ROC/P HCP.	\$6,290,066,914 (5,556,557,938) (115,639,969) (574,999,984) (3,611,072) (23,206,900) (15,469,194) (581,857)	Recertification of Advance using Current data	
3 1980-81 First Principal Recertification No change - ROC/P HCP, GATE District Aid, County Revenue Limits and CSSF DS/OP		Recertified First Principal because of Special Education Master Plan	1980-81 (P1) Recertification is 24.10% Local and 75.90% State
Total Spec Educ Prior Year Corrections	\$8,358,921,145 (627,514,137) (5,841,868)	\$6,344,811,863 (627,514,137) (5,841,868)	

Total Funds	State Funds	Amount of Corrections	Remarks
1980-81 Second Principal (P2)			1980-81 (P2) is 24.46% Local and 75.54% State
Total \$8,371,072,951	\$6,323,885,776		
K-12 RL (7,513,782,040)	(5,530,400,995)		
CSSF RL (187,271,388)	(123,465,258)		
Spec Educ (625,131,086)	(625,131,086)		
Prior Year (5,615,275)	(5,615,275)		
Corrections (23,206,900)	(23,206,900)		
CSSR DS/OP (15,527,011)	(15,527,011)		
GATE (539,251)	(539,251)		
ROC/P			
1980-81 Second Principal Recertification No changes ROC/p Hdcp, CSSF DS/OP and prior year corrections			Recertified (P2) because of deficit restoration
Changes:			
Total \$8,439,904,083	\$6,427,099,938		
K-12 RL (7,552,577,179)	(5,601,895,217)		
CSSF RL (187,265,569)	(125,143,686)		
Spec Educ (655,133,533)	(655,133,533)		
GATE (15,566,076)	(15,566,076)		
	Corrections		
	1978-79 \$4,346,646		
	1979-80 1,268,279		

SCAL YEAR	BILL/PURPOSE	DATE SIGNED BY GOVERNOR	DATE BILL EFFECTIVE	IMPACT
1981-82	SB 110, Chapter 99, Statutes of 1981 Budget Act	June 24, 1981	July 1, 1981	Update of School Finance, considerable control language.
1981-82	SB 840, Chapter 169, Statutes of 1981	July 13, 1981	July 1, 1981	Updates some amounts and control language.
	Trailer Bill to Budget Act			
1981-82	AB 777, Chapter 100, Statutes of 1981	June 28, 1981	January 1, 1982, but relates to total 1981-82 fiscal year.	Has major impact on school finance.
	School Finance Bill			
1981-82	AB 61, Chapter 1093, Statutes of 1981	September 30, 1981	January 1, 1982, but relates to total 1981-82 fiscal year.	Revises portions of AB 777, SB 110, and SB 2196. Held up First Principal form.
	Trailer Bill to AB 777			
1981-82	SB 769, Chapter 1094, Statutes of 1981	September 30, 1981	January 1, 1982, but relates to total 1981-82 fiscal year.	Requires reduction to the revenue limit base.
	Special Education Master Plan Trailer Bill			
1981-82	SB 102, Chapter 101, Statutes of 1981	June 24, 1981	July 1, 1981	Supplemental Unsecured Taxes.
	Property Taxes			
1981-82	AB 639, Chapter 246, Statutes of 1981	September 21, 1981	July 1, 1981	Reduction of Special Education deficit.
	Special Education Master Plan			
1981-82	AB 552, Chapter 129, Statutes of 1981	June 26, 1981	July 1, 1981	Child Development
	NOTE: 1981-82 Total Funds \$8,439,904,083 1981-82 Advance Apportionment \$6,139,550,368			

**AUDITOR GENERAL'S COMMENTS ON
THE DEPARTMENT OF EDUCATION'S RESPONSE**

Normally, we do not comment on agency responses to our audit reports. However, we are commenting in this instance to provide clarity and perspective in view of the Department of Education's exceptions to the conclusions of our report.

Our report recommends that the Department of Education adopt internal control procedures to provide greater assurance that school districts receive accurate apportionments. Specifically, we recommend that the department establish certain legal, procedural, and data processing controls. Contrary to what the department suggests, these standard control procedures can be implemented by using existing department personnel and will place no additional burden on local educational agencies. We believe these controls are warranted and commensurate with the State Department of Education's responsibility for assuring the accurate apportionment of approximately \$5 billion in state funding for basic education programs.

The department criticizes our report for failing to recognize the system of "checks and balances" that currently exists outside the Department of Education. The department refers to "county superintendents and auditors and local certified public accountants [who] review, verify, and audit local apportionment calculations."

While our audit was directed toward improvements which could be made within the department, we did review the responsibilities of county superintendents, county auditors, and public accountants in the apportionment process. We also reviewed the apportionment documents prepared and processed by these officials. We discuss the responsibilities of these officials beginning on page 3 of our report. In the course of our audit, we found no evidence of a system of "checks and balances" operating in the apportionment process. Instead, we determined that the various county and local officials and public accountants each have responsibilities for portions of the apportionment process. In our opinion their responsibilities cannot be perceived to constitute systematic edits and audits of apportionment data, as the department implies.

We reviewed the independent audit reports of our sample school districts to determine whether the information contained in these reports could be used to verify the accuracy of the data

used in the apportionment calculations. We found that the data provided in the audit reports of school districts generally were not in a format comparable to apportionment forms. This discrepancy restricts the ability of the department to verify the accuracy of apportionments made to school districts.

In our review of school districts, we determined that districts may not be maintaining adequate documentation and support for apportionment claims. For example, on page 11 of our report, we indicate that we could not find adequate documentation and support for declining enrollment claims at the school districts we visited. This shows that certain information which is being used to make apportionments has not been verified or audited since the supporting data has not been kept at school districts. Based upon our review of the control mechanisms which exist outside the department, we believe it is unwise for the department to rely on the mechanisms as a complete system of "checks and balances" to verify and audit apportionments.

The department also criticizes our report for pointing out only one instance of apportionment miscalculation in a four-year period. The intent of our report was not to identify every error or discrepancy in the apportionment process. Instead, we used the examples to illustrate the potential for errors in the current apportionment process and the need for adequate control procedures. Because of such weaknesses, we recommend that the department institute controls to provide greater assurances that the potential for legal, procedural, and data processing errors are reduced.

Finally, the department contends that our report's "conclusion" regarding the lack of participation by data management services staff is untrue. Our conclusion states that the computerized system is not documented. This lack of documentation is created, in part, by the absence of active participation by the data management services staff in applying accepted standards of documentation. As we point out on page 12 of our report and as reiterated in the department's response, the one analyst assigned to the unit is responsible for programming and design--not for documentation.

The lack of documentation creates the risk that the system would become inoperable if key personnel were to leave. Further, the absence of systems documentation prevented us from auditing certain portions of the apportionment process. The department's statement that "additional computer system documentation is always desirable" is misleading because it implies that an acceptable level of documentation already exists. As our report states, we found a significant lack of such systems documentation.

In spite of the Department of Education's disagreement with the conclusions of our report, we still recommend the establishment of legal, procedural, and documentation controls using available resource specialists in the department. The Department of Education should institute these controls in order to provide greater assurance to the Superintendent of Public Instruction that his certification of apportionments is accurate and in conformance with the law.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps